

Property Tax Administration - 2004 Tax Year

Act 68 – Property Classification

Beginning this year all real property in the local grand list books was classified as either homestead or nonresidential. Owners of homesteads are required to annually file a homestead declaration with the Tax Department. That information is transmitted to the towns and cities and properties assessed accordingly.

A statewide education tax is applied to the two classes of property. The education tax rate on nonresidential property was \$1.54 in fiscal year 2005. The education rate for homestead property was \$1.05 times the district spending adjustment. The district spending adjustment is determined annually for each school district by the Department of Education. Both of these rates were also adjusted for the common level of appraisal as determined by PVR for each school district.

The Vermont assessment and taxation community (listers, town treasurers, tax collectors, and town clerks) and the Tax Department had much to accomplish in a short span of time. Since Act 68 was signed into law in June of 2003 homestead declarations were designed, distributed by mail and made available for on-line filing. Procedures were put in place at the Tax Department to accept and audit the declarations and provide an electronic listing of those properties to the towns and cities. The Tax Department's Information Systems Division, Taxpayer Services Division and PVR accomplished much in a very short period of time.

Handbooks were written for local officials. Tax administration software was updated. Rules were promulgated (Homestead Rule 1.5401 and Domicile Rule 1.5811). Training and informational meetings were held throughout the State. The first homestead and nonresidential rates were set June 30, 2004. Property tax bills with the new rates began going out in July. The 246 towns and cities provided electronic grand lists with the newly classified properties in August.

The Vermont assessment and taxation community responded admirably. As a result, the Act 68 tax classification system was a success in its first year. Though successful, experience from this first year suggests that some improvements are needed. While some of these improvements can be made administratively, the Tax Department will be making a limited number of suggestions for statutory change to the Legislature.

Equalization study

Annually, the Division of Property Valuation and Review (PVR) is required to conduct a study (the *Equalization Study*) that estimates the total fair market value of property that is subject to education taxes. This year's equalization study is based on the assessed value of property as determined from municipalities' grand lists as of April 1, 2004. The determination of equalized property values comes from a comparison of grand list values to actual market sales or appraisals of property. Based on the difference between the listed values and sales or appraisals, ratios are

computed and used to derive an estimate of fair market value (or use/stabilized value, where appropriate) for each municipality.

The study's estimates of value are called *equalized education property values (EEPV)*. The EEPV's determined as part of the 2004 equalization study are an important data element in the calculation of each municipality's school tax rates. This study will be used in the determination of the 2005 school tax rates (i.e., state fiscal year 2006).

Property Values

Statewide, the total education listed value for the 2004 tax year was \$44.5 billion. This compares to \$41.6 billion for the prior tax year and represents a 7.0 percent increase over the 2003 tax year. This compares to a 6.6 percent increase from the 2002 tax year to the 2003. The bulk of this increase can be attributed to two sources - new construction and reappraisals. For 2004, 42 towns and cities conducted reappraisals—slightly more than the 39 conducted in 2003. There were only 24 reappraisals in tax year 2002. The continuing strength of the real estate market and the resulting reappraisal orders will likely result in continued high reappraisal activity over the next several years.

The state total equalized education property value for 2004 (as certified 1-1-04) is \$54.1 billion compared to a 2003 equalized education value of \$48.8 billion (as certified 1-1-04). The increase is \$5.3 billion or a 10.9 percent increase over the 2003 comparable value (i.e., the certified value prior to appeals). For 2004 the state total equalized municipal property value is \$55.2 billion dollars compared to the 2003 value of \$50.0 billion. This is a 10.4 percent increase.

The total machinery and equipment and inventory value for this tax year was \$795.4 million. In 2003 it was \$828.5 million. That is a reduction of \$33.1 million.

2004 marks the fifth year of a strong real estate market throughout the State. The continuation of this pattern is reflected in the significant increase in the statewide-equalized education value. Some believe that the hot real estate market could be moderating, but a relatively low inventory of properties on the market as well as historically low interest rates will likely promote continued appreciation of property value for the immediately foreseeable future.

While property values continue to rise, the growth varies significantly across the State. Based on the estimates from this year's study, Windsor County saw the highest rate of increase in value followed by Grand Isle County. The following table details the change in equalized value by county.

Change in EEPV – 2003 to 2004

Addison County	10.3%	9
Bennington County	12.3%	5
Caledonia County	8.9%	13
Chittenden County	9.6%	11
Essex County	9.5%	12
Franklin County	10.5%	8
Grand Isle County	13.0%	2
Lamoille County	12.5%	4
Orange County	11.5%	7
Orleans County	10.1%	10
Rutland County	8.7%	14
Washington County	12.6%	3
Windham County	11.6%	6
Windsor County	13.2%	1
STATEWIDE	10.9%	

It is important to note that the calculations of all the above values and changes are based on the results of the 2004 values prior to any appeals. Appeals by municipalities may result in a slight reduction in the 2004 equalized values. In past years, appeals have resulted in less than half of a percent decrease in the statewide total value.

Taxes and Tax Rates

The following are some summary numbers concerning the change in taxes assessed and effective tax rates (ETR's).

School, Municipal and Total Taxes Assessed (before income sensitization)

Tax Year	School Taxes	Municipal Taxes ¹	Total Taxes
2001	\$ 617.6 M	\$ 237.4 M	\$ 855.0 M
2002	687.6	246.4	934.0
2003	741.6	256.0	997.6
2004	734.5 ²	273.6	1,008.1

Change from 2003 tax year to 2004.

Change (\$M) < \$7.1 > \$ 20.6 \$10.5

% Change <0.01> 6.9% 1.1%

School, Municipal and Total Effective Tax Rates (ETR)

Tax Year	School ETR ³	Municipal ETR ⁴	Total ETR	
2001	\$ 1.50	\$ 0.55	\$ 2.05	
2002	1.54	0.54	2.08	
2003	1.52	0.51	2.03	
	Homestead School ETR	Nonresidential School ETR	Municipal ETR	Local Agreement Rate ETR
2004	\$ 1.3068	\$ 1.4058	\$ 0.4947	\$ 0.0012

The outstanding aspect of the above is the reduction in the amount of school taxes between 2003 and 2004. This reduction is due to the influx of non-property tax revenues into Vermont's school finance system as a result of Act 68 changes. Other changes worth noting include the splitting of the school tax rate into its classification components (Homestead and Nonresidential) and the decline in each of the school ETR's. With the new tax classification system there is no

¹ Municipal taxes include only town/city level taxes.

² Tax year 2004 school taxes are estimate amounts. Final 2004 school taxes are subject to a reconciliation process that will take place in the spring of 2005.

³ ETR express in rate per \$100 of equalized value

⁴ Municipal ETR's include only town/city level taxes in computation

longer a single total property tax rate. Based on the above the total ETR for Homestead properties is about \$1.80 while the same number for Nonresidential properties is about \$1.90. The decline in ETR's is a function of the significant increase in equalized value across the State coupled with the moderate increase in total property taxes assessed. For the second year in a row, total taxes (including property taxes assessed by sub-municipalities such as villages and special districts) exceeded \$1 billion. This results from the increase of about \$20 million in municipal taxes which more than offset the decline in school taxes.

Assessment practices in Vermont

Assessment practices in Vermont have improved markedly over the last 20 years. A measure that provides a perspective of this improvement is the common level of appraisal (CLA). The CLA is the ratio of a municipality's total grand list value to its corresponding "equalized" value derived through PVR's equalization study. In other words, it is a percentage that compares local assessments to PVR's estimate of market value. The statewide CLA based on the results of the 2004 study is 82.3 percent. This compares to a statewide CLA of 54.0 percent for 1981. Another way to use the CLA to evaluate assessment practices is to consider the change in municipalities that have extremely low CLA's and are thus very far from Vermont's statutorily set standard of 100 percent fair market value. In 1981, 41 municipalities were appraising property at less than 30 percent of fair market value. In 2004 there are 2 municipalities with a CLA less than 60 percent. At the same time, the continuing strength of the real estate market is leading to a growing number of municipalities with CLA's that are below the statutory minimum level of 80% (municipalities dropping below 80% are ordered to reappraise). In 2004 there are 95 municipalities with CLAs less than 80% which is more than triple the number of towns (31) with CLA's below 80% based on the results of the 2002 equalization study.

The coefficient of dispersion (COD) is a measure of the equity across assessments in a municipality's grand list. The higher the COD, the more likely it is that similar properties are being assessed at different levels resulting in inequities in assessments within a grand list.

Assessment equity is important in order to meet the equal protection requirements of the Vermont and United States Constitutions. If a town's grand list shows a common level of appraisal of 90 percent and all properties are assessed relatively close to 90 percent of their market value, there is a high degree of equity and the municipality will have a low COD. (Assessment standards generally hold that CODs of 10 percent or less are good.) If, on the other hand, individual properties range in assessment from 60 to 140 percent of market value, then property owners are not being treated fairly in terms of the resulting tax burdens. In many respects, maintaining the equity or uniformity of assessments is more important than maintaining an overall level of assessment that is close to the 100% valuation standard.

As stated above, there has been a marked improvement in assessment practice and this can be clearly seen by comparing the CODs from 1981 to values derived from recent equalization studies.

Percentage of Municipalities with CODs

<u>Year</u>	<u>10% and less</u>	<u>Greater than 10%, less than 20%</u>	<u>20% to less than 30%</u>	<u>30% and greater</u>
1981	1%	25%	42%	31%
2000	20%	64%	15%	1%
2001	13%	69%	17%	1%
2002	14%	65%	20%	1%
2003	14%	62%	24%	0%
2004	10%	57%	32%	1%

Clearly assessment equity has improved since 1981. At the same time, the prolonged surge in property appreciation due to current market conditions has served to strain not only the general level of assessment in Vermont but also overall assessment equity. In response to market forces more municipalities are conducting reappraisals. Contributing to the current upturn in reappraisal activity is a statutory provision that requires municipalities to reappraise when their level of assessment and/or uniformity of assessment declines beyond prescribed levels (i.e., low CLAs or high CODs). In 1997 a statutory provision (32 V.S.A. Section 4041a) was enacted. Under this provision any municipality with a CLA less than 80 percent or a COD greater than 20 percent must reappraise and may be ordered to do so by the director of PVR. If a municipality does not make a reasonable attempt to reappraise its grand list, all state funding to the municipality can be withheld until it complies with its reappraisal requirement. During fiscal year 2005, 43 municipalities were ordered to reappraise under this provision. It can be anticipated that a comparable number of municipalities will receive new reappraisal order in fiscal year 2006.

Another factor aiding in improved assessment practices is the increased use of **computer assisted mass appraisal** (CAMA) computer software. The use of CAMA software promotes uniformity in appraisal practices and hence consistency across assessments within a municipality. Presently about 246 municipalities are using some portion of a software program called **CAPTAP** (Computer Assisted Property Tax Administration Program) which is supported by the Vermont Department of Taxes. More information on the use and benefits of computer technology to assist in property appraisal and tax administration is provided in another section of this report called *Computer Assisted Property Tax Administration Programs*.

Education and Training

During the past year, Property Valuation and Review (PVR) provided extensive training to listers, town clerks and treasurers in many aspects of tax administration and assessment. It was a busy year with the major focus of PVR's education effort targeted to the implementation of Act 68.

Informational Workshops for the **Implementation of Act 68** were held in Newport, Ludlow, Cornwall, Randolph, Milton, Enosburgh, Brattleboro, Montpelier, Lyndon and Rutland with with several hundred listers and other officials attending. PVR also presented a Vermont Interactive Television (VIT) instructional session on the implementation of Act 68 at all 14 VIT sites. The session was well attended with elected officials at each site. Beyond this, topics related to Act 68 were presented at both the five Town Officers Education Conferences and the three Municipal Officers Management Seminars. These sessions were conducted in various locations around the state.

Our major non-Act 68 offering during 2004 was the development and presentation of a new five day course entitled **Data Collection and Property Inspection**. The course was planned to give students the basics of the assessment process with a heavy concentration on the collection of data and the grading of property. Demand for such a course was high and 29 listers were enrolled.

After its initial presentation, modifications were made to streamline the session into a three day presentation with more specific focus on the State's computerized assessment program, CAMA 2000. At the present time, four of these three day sessions are scheduled for the spring of 2005.

CAMA 2000 Training was provided to 19 towns. This training consisted of individualized one day sessions with listers in a hands-on format. Twelve towns purchased the CAMA 2000 program and intensive training was provided for those.

Lister Duties Workshops were presented in Bennington, Ludlow, Brattleboro and Milton. These were well attended with many longtime listers joining new listers for these sessions.

Seven **Board of Civil Authority and Board of Abatement Training Sessions** were held this past year. Four sessions were presented jointly with the Secretary of State. A major presentation to the Vermont Clerks and Treasurers Association was supplemented with smaller sessions in Rutland, Northfield, Brattleboro, Bristol and Johnson.

As in years past, PVR continued its collaboration with the UVM Extension Service to provide seminars for listers at the Town Officer Education Conferences (TOEC) and the Municipal Officers Management Seminars (MOMS). Listers again comprised the largest audience of attendees with a total of over 200 listers at both the spring and fall sessions. Topics included legislative changes, reappraisal issues, and ratio studies.

Education continues to be a high priority for PVR. With the additional challenges that come from an overheated real estate market, issues such as partial reappraisals and ongoing maintenance of grand lists are areas of concern to listers. More education and training to give listers the tools to handle full in-house reappraisals, partial reappraisals or perhaps to monitor a firm conducting a reappraisal is needed. The challenge for PVR is to provide the resources to make these courses possible.

Appeals to the State Appraisers

The Director of Property Valuation and Review appoints hearing officers to hear and decided appeals from decisions of the local boards of civil authority in accord with 32 V.S.A. §§4461-4469.

As of publication date, 175 appeals have been received for the 2003 tax year. The majority of appeals heard by the State Appraiser continue to result in a reduction in value. Only a few of the 2003 cases have been heard. Of the 2002 cases heard, about 70 percent resulted in a decrease in value—although about a quarter of those less than 5%. The results were:

<u>Value Increased</u>	<u>No Change</u>	<u>Reduced 20% or Less</u>	<u>Reduced More than 20%</u>
8	26	51	2

Here are the results of appeals over the last several years.

	# Appeals	# Withdrawn	# Reduced	# Raised or Unchanged
1991	525	158	284	83
1992	451	65	256	130
1993	455	47	303	105
1994	440	32	332	76
1995	399	92	239	68
1996	310	37	121	152
1997	154	20	110	23
1998	161	17	94	43
1999	172	36	93	43
2000	80	2	45	33
2001 ⁵	135	17	68	47
2002 ⁶	152	22	76	34

⁵ 3 appeals outstanding as of publication

⁶ 20 appeals outstanding as of publication

Computer Assisted Property Tax Administration Programs (CAPTAP-I and CAPTAP-II (CAMA 2000))

Section 3411(4)(8) of Title 32, requires the Division of Property Valuation and Review to develop and recommend to the general assembly improved methods for standardizing property assessment procedures and to provide technical assistance and instructions to the listers in a uniform appraisal systems.

A major tool in accomplishing this requirement is the Computer Assisted Mass Appraisal (CAMA) systems. Property Valuation has maintained and supported a DOS version and a Windows version of these packages.

The CAPTAP-II (DOS) version was introduced in 1996, the Windows version (CAMA 2000) of this software was released in 1999. These packages replaced the older CAPTAP-I (DOS) programs.

The CAPTAP-II Windows program referred to as CAMA 2000 and NEMRC is supplied by two software companies, MicroSolve provides the appraisal modules and NEMRC (New England Municipal Resource Center) provides the grand list modules.

CAMA 2000 is a mass appraisal tool that uses Marshall and Swift cost values. The Marshall and Swift tables are used nationally to produce values. The CAMA 2000 system has the capability of estimating values based on the three approaches to value - Market Adjusted Cost, Comparable Sales Analysis and the Income Approach to Value.

The few towns that still are using the DOS versions (both CAPTAP-I and CAPTAP-II) of the CAMA systems were notified at the beginning of this year that Property Valuation has made the decision to discontinue support of the DOS based programs.

This will allow Property Valuation technical support staff to focus their time and efforts on supporting and improving the Windows based programs. In light of this notification several towns have converted to the CAMA 2000 programs or are in the process of converting.

In 2004, 174 towns were using one of the above versions of the CAMA software to produce values. In additional 246 towns use the NEMRC grand list software to produce grand list, changes of appraisal notices and tax bills.

There are presently 38 towns that have reappraisals in progress for completion either for the 2005 grand list or later.

In 2004 PVR assisted towns in converting existing data to the CAPTAP-II (CAMA 2000 software). A total of 13 town's data was converted to the CAMA 2000 programs.

Interest in the CAMA 2000 software continues to grow as towns are faced with reappraisals. PVR continues to make changes in an effort to keep the software updated. PVR is endeavoring to keep the software updated.

The majority of this year's time has been spent in overseeing changes to the Act 68 (Education Funding) laws. Changes to both the CAMA 2000 program and NEMRC Grand List programs were required in order that both the grand list program and the CAMA 2000 program produce values that meet the requirements for Act 68.

This year for the first time listers were required to weekly download HS-131 (Homestead Declarations) that were filed with the Tax Department. This law also required that listers calculate a Homestead Value and a Housesite Value for each property that filed an HS-131. This required changes to the CAMA 2000 program to allow the users to correctly identify the components of the primary residence (including site improvements and outbuildings). The listers also had to identify the remaining components to calculate the homestead value.

Towns Using CAMA Programs as of December 31, 2004

1 = 1980 Cost 2 = CAPTAP-I M&S 3 = CAPTAP-II DOS 4 = CAMA 2000

Town Name	System Used	Town Name	System Used
Addison*	4	Calais	4
Andover	4	Cambridge***	4
Arlington***	4	Cavendish***	4
Athens**	4	Charleston*	1
Averill	4	Charlotte**	4
Avery's Gore	4	Chittenden	4
Bakersfield	4	Concord	4
Baltimore	4	Corinth	4
Barnet	4	Cornwall**	4
Belvidere	4	Coventry	4
Bennington	4	Craftsbury***	4
Benson***	4	Danville***	4
Berkshire	4	Derby	4
Berlin*	1	Dummerston***	4
Bethel*	1	Duxbury	4
Bloomfield	4	East Haven	4
Bolton***	4	Elmore***	4
Bradford	4	Enosburg*	4
Braintree***	4	Essex***	4
Brandon	4	Fairfax***	4
Brattleboro***	4	Fairlee**	4
Bridgewater	1	Fayston**	4
Bridport	4	Ferdinand	4
Brighton	4	Ferrisburgh***	4
Bristol***	4	Fletcher	4
Brookfield	1	Georgia	4
Brookline*	4	Glover	4
Brownington	4	Granby	4
Brunswick	4	Grand Isle	4
Buel's Gore	1	Granville	4
Burke	3	Greensboro	4

* Converting to CAMA 2000

** 2004 Reappraisal

*** Reappraisal in Progress

Towns Using CAMA Programs as of December 31, 2004

1 = 1980 Cost 2 = CAPTAP-I M&S 3 = CAPTAP-II DOS 4 = CAMA 2000

Town Name	System Used	Town Name	System Used
Groton***	4	Moretown**	4
Guildhall***	4	Morgan	4
Hartland	4	Morristown	4
Hinesburg***	4	Mt. Tabor*	4
Holland	3	Newark***	4
Hubbardton	4	Newbury**	4
Huntington***	4	New Haven	4
Hyde Park***	4	Newport Town**	4
Ira**	4	North Hero***	4
Irasburg***	4	Orange**	4
Jericho***	4	Orwell**	4
Johnson**	4	Panton**	4
Leicester	4	Peacham	4
Lemington	4	Peru	4
Lewis	4	Pittsfield	4
Lincoln**	4	Plainfield**	4
Londonderry	4	Poultney**	4
Lowell	4	Pownal***	4
Lunenburg**	4	Randolph*	1
Maidstone**	4	Reading**	4
Manchester***	4	Readsboro	4
Marshfield	4	Richford*	4
Mendon***	4	Richmond	4
Middlebury***	4	Rochester**	4
Middlesex**	4	Rockingham	1
Middletown Springs	4	Roxbury	4
Milton	4	Royalton	2
Monkton***	4	Rupert	4
Montgomery**	4	Rutland Town	3
Montpelier	4	Ryegate	4

* Converting to CAMA 2000

** 2004 Reappraisal

*** Reappraisal in Progress

Towns Using CAMA Programs as of December 31, 2004

1 = 1980 Cost 2 = CAPTAP-I M&S 3 = CAPTAP-II DOS 4 = CAMA 2000

Town Name	System Used	Town Name	System Used
St. Albans Town	4	Washington	1
St. George	4	Waterbury	4
St. Johnsbury***	4	Waterford***	4
Sandgate	4	Waterville**	4
Searsburg	4	Weathersfield*	4
Shaftsbury	4	Wells***	4
Shelburne	4	West Fairlee**	4
Sheldon	4	Westfield	4
Shoreham*	4	Westford	4
Shrewsbury**	4	Westminster	4
South Burlington***	4	Westmore	4
Springfield	1	West Windsor	4
Stamford	2	Wheelock	4
Starksboro***	4	Whitingham**	4
Stockbridge***	4	Williamstown***	4
Stowe***	4	Wilmington	3
Sutton	4	Windham	4
Tinmouth	3	Windsor	2
Townshend	4	Wolcott	4
Tunbridge	4	Woodbury	1
Underhill***	4	Woodford	4
Vernon	4	Woodstock	4
Vershire	4	Worcester	4
Victory	4		
Waitsfield	4		
Wallingford*	4		
Waltham	4		
Warner's Grant	4		
Warren	4		
Warren's Gore	4		

* Converting to CAMA 2000

** 2004 Reappraisal

*** Reappraisal in Progress